



## **Part 1 –Annual Budget**

### **1.1 Mayor's Report**

In his Budget speech to Parliament 22 February 2012, the Minister of Finance said “Our new story, our period of transition, is about building modern infrastructure, a vibrant economy, a decent quality of life for all, reduced poverty, decent employment opportunities.” In the past four years, the world economy has gone through its deepest recession in over 70 years. Global environment remains highly uncertain, while there are signs of revival in the US economy, much of Europe is in recession and significant financial risks cloud the global economic outlook. The minister further alluded to the fact that “An expansion on infrastructure investment is one of the central priorities of the 2012 Budget. Total spending will reach R 1.1 trillion next year”.

Nkonkobe Municipality's Mayor in his 2011 Budget speech said, “There is a need to identify poverty stricken areas in the jurisdiction of Nkonkobe and declare them as such and devote our attention to that with a view to ameliorate the situation. It is no fair if the few of us drive fancy cars while communities are starving. We must do something in fighting poverty. Working together we can defeat poverty”.

He also alluded to the fact that the municipality is engulfed in challenges that require intervention for all involved, these include:

- Low revenue base that leads to grants dependence which is impacting negatively to speedy service delivery.
- Long outstanding debtors with huge balances still outstanding.
- Valuation roll that negatively impact our billing.
- Insufficient grants allocated to the municipality to address backlogs in service delivery.

In the Annual Report for the financial year 2011 the municipality made tremendous strides in settling debts that relate to Development Bank of South Africa and Wesbank and now is buying assets on cash basis. The municipality prides itself to be a municipality that is financially viable wherein revenue collections have sky rocketed from R 800,000 per month to more than R 3 million. The municipality has successfully build community halls and other infrastructure projects from its own generated revenue.

We have also established a technical unit in order to enhance service delivery and minimize tenders wherein projects will be done in-house through this unit.

The municipality has also moved from a disclaimer to a qualified report. This is a tremendous report for a municipality who have been receiving disclaimer since its establishment. He further commended the Councilors, Audit committee, Internal Audit unit and managers led by municipal manager for this achievement.

### **Vision 2030**

The municipality in trying to link its budget to the priorities as set out in the National government vision 2030 has budgeted an amount of R 3 million to fund its Expanded Public Works Program so as to create job opportunities, over and above this amount the program will be linked to other infrastructure projects such as MIG and Internally funded capital projects which totals to R 44,9m. R 8,9m is budgeted to repair the infrastructure of the municipality. A further R 3,4m is put aside to cater for the development of Tourism, Local economic development, Cricket and other sporting codes in the jurisdiction of the municipality.

## **1.2 Council Resolutions**

On 30 March 2012 the Council of Nkonkobe Municipality met in the Council Chambers of the municipality in Alice to table the Draft Annual Budget for the financial year 2012/13. The Council approved and adopted the following resolutions:

1. The Council of Nkonkobe Municipality acting in terms of Chapter 4 of the Municipal Finance Management Act,(Act 56 of 2003) approves and adopts the draft budget as it tabled subject to Section 23 (1) – (4)
  - 1.1 The annual budget of the municipality for the financial year 2012/13 and the multi-year and single-year capital appropriations as set out in the following tables:
    - 1.1.1 Budgeted Financial Performance(revenue and expenditure by standard classification) attached as A2 of Annexure A;
    - 1.1.2 Budgeted Financial Performance(revenue and expenditure by municipal vote) attached as A3 of Annexure A;
    - 1.1.3 Budgeted Financial Performance(revenue by source and expenditure by type) attached as A4 of Annexure A ;
    - 1.1.4 Multi -year and single-year capital appropriations by municipal vote and standard classification and associated funding by source contained in A5 CAPEX.
  - 1.2 The financial position, cash flow budget, cash backed reserve/ accumulated surplus, asset Management and basic service delivery targets are approved as set out in the following tables:
    - 1.2.1 Budgeted Financial Position as contained in table A6;
    - 1.2.2 Budgeted Cash Flows as contained in Table A7;

- 1.2.3 Cash backed reserves and accumulated surplus reconciliation as contained in table A8;
- 1.2.4 Asset management as contained in Table A9
- 1.2.5 Basic service delivery measurement as contained in Table A10
- 2. The Council of Nkonkobe Municipality acting in terms of Section 75A of the Local Government: Municipal Systems Act(Act 32 of 2000) approves with effect from 1 July 2012:
  - 2.1 Tariffs for property rates- set out in Annexure B
  - 2.2 Tariffs for electricity(Fort Beaufort)- set out in Annexure B
  - 2.3 Tariffs for solid waste services- set out in Annexure B
- 3. The Council of Nkonkobe Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves tariffs for other services as set out in Annexure B.
- 4. To give proper effect to the municipality's annual budget, the Council of Nkonkobe Municipality approves;
  - 4.1 The cash backing is implemented through the utilization of a portion of the revenue generated from property rates to ensure that all capital reserves and provisions, unspent long term loans and unspent conditional grants are cashed backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal budget and Reporting Regulations;
  - 4.2 That the municipality be permitted to enter into long-term loans for the funding of the capital programmes in respect of the 2011/12 financial year limited to an amount of R1 billion per financial year of the MTREF in terms of Section 46 of the Municipal Finance Management Act.
  - 4.3 That the Municipal Manager be authorized to sign all necessary agreements and documents to give effect to the above lending programme.

### **1.3 Executive Summary**

The application of sound financial management principles for the compilation of the municipality's financial plan is essential and critical to ensure that the municipality remains viable and that the municipality services are provided sustainable, economically and equitable to all communities.

The municipalities business and service delivery priorities were reviewed as part of this year's planning and budget process. Wherein mission and vision, was changed to address the challenges currently facing the municipality. Appropriate funds were transferred from low to high priority programmes so as to maintain a sound financial stewardship.

The municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers including the amount owed by Department of Public Works, Amatole District municipality and businesses and households.

National Treasury's MFMA Circular 51, 54 and 55 were used to guide the compilation of the 2012/13 MTREF.

The main challenges experienced during the compilation of the 2012/13 MTREF can be summarized as follows:

- The ongoing difficulties in the national and local economy;
- Aging and poorly maintained roads and electricity infrastructure;
- The need to reprioritize projects and expenditure within the available funds given the unlimited nature of needs and limited funding available to the municipality;
- The increased cost of bulk water and electricity (due to tariff increase from Amatole District Municipality and Eskom), which is placing upward pressure on service tariffs to residents;
- Wage increases for municipal staff that continue to exceed consumer inflation as well as the need to fill vacancies;
- Availability of affordable capital borrowing to finance capital projects to enhance service delivery

The following budget principles and guidelines directly informed the compilation of the 2012/13 MTREF:

- The 2011/12 Adjustment Budget priorities and targets, as well as the base line allocations contained in the Adjustment Budget were adopted as the upper limits for the baselines for the 2012/13 annual budget;
- Tariff and property rate increases should be linked to CPI and be in line with Municipal property Rates Act
- Increase is based on percentage of collection in the current year (Section 18 of the MFMA);
- Budget must be Cash Funded meaning only realistically anticipated revenues should be committed;
- Guided by MFMA Act 56 of 2003, section 16 to 24 and MFMA circulars: 12;42;48;51;54;55 and 58;
- Also guided by Property rates Act, Municipal structures and systems Act (no 117 of 1998 and no 32 of 2000 respectively);
- Annual Division of Revenue Act;
- Municipal Budget and Reporting Regulations(Government Gazette 32141);
- Municipal Fiscal Powers and Functions Act(No 12 of 2007);
- Local Government Capital Asset Management Guideline;
- The budget was prepared on the Incremental/ line item budgeting method for all existing priorities and Zero- based budgeting method on all new priorities.